Supreme Court, U.S.
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No. 02-1645

IN THE

Supreme Court of the United States

QUICK TECHNOLOGIES, INC.,

Petitioner

v.

BEST U.S. HOLDINGS, INC.

and

BEST SOFTWARE OF CALIFORNIA, INC.

Respondents

On Petition For Writ Of Certiorari
to the United States Court of Appeals for the Fifth Circuit

BRIEF OF RESPONDENTS IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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RESTATEMENT OF THE QUESTION PRESENTED FOR REVIEW

Under Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), does a trial court have discretion, based upon the principles of equity, to deny a prevailing trademark holder an accounting of the infringer's profits?

RULE 29.6 STATEMENT

No publicly held company owns 10% or more of the stock of Respondent Best U.S. Holdings, Inc. Best U.S. Holdings, Inc. has the following parent corporations:

Best Software US Operations (parent of Best U.S. Holdings, Inc.)
56 Technology Drive
Irvine, CA 92618

The Sage Group plc (parent of Best Software U.S. Operations)
Sage House
Benton Park Rd
Newcastle Upon Tyne
NE7 7LZ

No publicly held company owns 10% or more of the stock of Respondent Best Software of California, Inc. Best Software of California, Inc. has the following parent corporations:

Best Software U.S., Inc. (parent of Best Software of California, Inc.)
56 Technology Drive
Irvine, CA 92618

Best Software Holdings, Inc. (parent of Best Software U.S., Inc.)
56 Technology Drive
Irvine, CA 92618

Best Software U.S. Operations (parent of Best Software Holdings, Inc.)
56 Technology Drive
Irvine, CA 92618

The Sage Group plc (parent of Best Software U.S. Operations)
Sage House
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Respondents Best U.S. Holdings, Inc. and Best Software of California, Inc. (collectively, "Best") respectfully submit that this Court should deny the Petition for Writ of Certiorari filed by Quick Technologies, Inc., which Petition seeks review of the decision of the Fifth Circuit Court of Appeals entered in this case on December 9, 2002.[1]

STATEMENT OF THE CASE

After a lengthy jury trial with almost 50 witnesses, a jury found that Respondents Best U.S. Holdings, Inc. and Best Software of California, Inc. (collectively, "Best") had infringed the trademarks of Petitioner Quick Technologies, Inc. ("Quick"). (Pet. at 37a.) The jury, however, also found that the infringement was not willful. (Pet. at 38a.)

After considering the jury's verdict and the applicable authorities, the District Court entered permanent injunctions against Respondents which ended the infringing conduct. (Pet. at 21a-22a, 67a-72a.) The District Court, however, refused to award Quick, a company with approximately $1 million in annual sales, the equitable remedy of an accounting of $62 million, the amount of Best's profits Quick contended was attributable to infringement. (Pet. at 21a.) Specifically, after "[h]aving considered the verdict and the applicable authorities," the District Court held that "permanent injunctive relief should be entered in favor of Plaintiff, but that no damages should be awarded." (Pet. at 21a.)

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[1] In the Petition, Quick incorrectly identifies The Sage Group plc ("Sage Group") as a respondent. (Pet. at 1.) Sage Group was dismissed from the lawsuit by the District Court for lack of personal jurisdiction, that dismissal was affirmed by the Fifth Circuit (Pet. at 8a), and Quick has not sought review of that affirmance. (*See* Pet. at i-ii.)

Quick appealed, seeking, among other things, a reversal of the District Court's discretionary denial of an accounting of profits. (Pet. at 5a.) In this connection, Quick argued that that the District Court erred in instructing the jury that Quick had to prove Respondents' infringement was done willfully before it could recover an accounting of profits under Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a). (Pet. at 5a.)

Although it agreed with Quick that an award of profits should not be conditioned on a finding of willfulness, a unanimous panel of the Fifth Circuit (DeMoss, Stewart, and Dennis, JJ.) nevertheless recognized that willfulness, or a lack thereof, was among the factors to be considered. Accordingly, "because the statute is heavily imbued with equitable considerations," the panel applied the six factor test previously articulated in *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526 (5th Cir. 1998), to determine whether an award of profits would have been appropriate.[2] (Pet. at 15a-16a.) After weighing the evidence as a whole in light of these factors, the panel held that "the principles of equity still do not weigh in favor of an award of profits to [Quick]." (Pet. at 16a-17a.)

Quick petitioned for rehearing, which petition the Fifth Circuit denied *per curiam*. (Pet. at 66a.)

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[2] The *Pebble Beach* factors include, but are not limited to,

> (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.

Pebble Beach, 155 F.3d at 554.

REASONS FOR DENYING THE REQUESTED WRIT

I. QUICK WAS NOT DENIED ITS RIGHT TO TRIAL BY JURY

Still in search of a $62 million windfall, Quick seeks to raise a constitutional issue where none exists by arguing that, despite having prevailed on the merits after a lengthy jury trial and having obtained permanent injunctions in its favor, its Seventh Amendment guarantee of a right to a trial by jury has nevertheless been abridged. (Pet. at 9-15.) In this regard, Quick contends, citing *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962), that having found the District Court's instruction conditioning an accounting of Respondents' profits on a finding of willfulness erroneous, the Fifth Circuit had no right to affirm. (Pet. at 9.) Rather, according to Quick, the Fifth Circuit should have remanded for a new trial on damages. (*Id.*) Only after such a trial, Quick asserts, could the District Court have properly considered whether the principles of equity weighed in favor of providing Quick with an accounting of Respondents' profits. (Pet. at 15-18.)

Contrary to Quick's contentions, its constitutional rights have not been violated. As this Court long ago held, and as the language of Section 35(a) of the Lanham Act unambiguously affirms, a trademark holder that establishes infringement is not automatically entitled to recover an accounting of profits, or for that matter any damages award. *See Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131-32 (1947) (affirming, in a case decided under the Trademark Act of 1905 but after the passage of the Lanham Act in 1946, the denial of an accounting of profits where an injunction "satisf[ied] the equities of the case"); 15 U.S.C. § 1117(a) (reproduced at Pet. at 2) (providing that an award of an infringer's profits is, first and foremost, "subject to the principles of equity").

Because of the broad discretion entrusted to the trial court under this unambiguous statutory standard, Quick's Petition does nothing more than ask this Court to undertake a further review of the District Court's exercise of discretion, which has already been reviewed and upheld by the Fifth Circuit. Error correction is not, of course, the business of this Court. *See Watt v. Alaska*, 451 U.S. 259, 276 n.5 (1981) ("[The Court's] certiorari jurisdiction is designed to serve purposes broader than the correction of error in particular cases.") (Stevens, J., concurring); *see also Ponte v. Real*, 471 U.S. 491, 501-02 (1985) (Stevens, J., concurring) ("The merits of an isolated case have only an oblique relevance to the question whether a grant of certiorari is consistent with the sound administration of this Court's discretionary docket.").

There was, in any event, no error here, as the Fifth Circuit properly applied a factor-based approach to determine whether the District Court abused its discretion under Section 35(a) in denying an accounting of Respondents' profits. As the Fifth Circuit properly recognized in the opinion below, Section 35(a) is "heavily imbued with equitable considerations" (Pet. at 16a), including the guiding principle set forth in the first sentence of Section 35(a) that an award of profits is, first and foremost, "subject to the principles of equity." 15 U.S.C. § 1117(a).

Quick's arguments to the contrary (Pet. at 8-18) turn the Lanham Act and this Court's precedent on their respective heads. As the plain meaning of the Lanham Act makes clear, an award of an infringer's profits is, first and foremost, subject to the principles of equity, and therefore the District Court can, indeed must, exercise that discretion to determine if any accounting is justifiable. Neither law, nor logic, nor a reading of the statute supports Quick's argument that the exercise of discretion must be deferred

until after the amount of the infringer's profits attributable to infringement is calculated. That the statute also provides that the court may later assess and adjust the amount of any such award does not change the analysis.

As this Court has previously recognized, as with any statute, any attempt to discern the meaning of the Lanham Act must begin with the assumption that its text accurately and conclusively expresses the legislative purpose, absent clear evidence to the contrary. *See Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 194 (1985). *See also Estate of Cowart v. Nicklos Drilling Co.*, 505 U.S. 469, 475 (1992) ("In a statutory construction case, the beginning point must be the language of the statute, and when a statute speaks with clarity to an issue, judicial inquiry into the statute's meaning, in all but the most extraordinary circumstance, is finished.") Here, the very first sentence of Section 35(a) unambiguously states that an award of an infringers profits is "subject to the principles of equity." 15 U.S.C. § 1117(a) (reproduced at Pet. at 2).[3]

Nor does this Court's decision in *Dairy Queen, Inc. v. Wood*, 369 U.S. 469 (1962), conflict with the decision below. In that case, this Court reinstated a stricken demand for a jury trial in a breach of contract action, instructing that

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[3] According to the legislative history of what would later become Section 35(a), the addition of the "principles of equity" clause was recommended to Representative Lanham by Professor Milton Handler. *See Trademarks: Hearings on H.R. 102, H.R. 5461 and S. 895 Before the Subcomm. on Trademarks and the House Comm. on Patents*, 77th Cong., 1st Sess. 228 (1941) (letter of Milton Handler to Representative Lanham). "[I]t seems clear," Handler wrote, "that the normal principles of equity in respect to the allowance of and defenses to an accounting of profits and the recovery of damages are not affected by this bill." *Id.* In this regard, Handler recommended inserting "according to the principles of equity" to the first sentence of Section 35(a) in order "to effectuate the intentions of the draftsmen." *Id.*

on remand "the factual issues related to the question of whether there has been a breach of contract" be given to the jury before "any final court determination of respondents' equitable claims." *Id.* at 479. In the case at bar, the issue of whether there was an infringement was indeed given to the jury, and the jury's factual findings were thereafter used by the District Court both in fashioning broad injunctive relief, and in denying the requested accounting, and by the Fifth Circuit in its affirmance.

In sum, while the decision below is in full accord with *Dairy Queen*, the relevant, controlling case is *Champion Spark Plug*, with which the decision below is consistent in all respects.

II. THIS CASE RAISES NEITHER NOVEL NOR CONTROVERSIAL ISSUES OF TRADEMARK LAW

A. This Was Not a "Reverse Confusion" Case

Contrary to its repeated assertions that "[t]his is a reverse confusion case" (*e.g.*, Pet. at 18, 19, 20, 21), *Quick in fact argued its case to the jury on both forward and reverse confusion theories.*[4] Indeed, in its proposed jury instructions, Quick specifically asked that the jury be instructed on both forward and reverse confusion theories (Record, Vol. 10, p. 1837), and the District Court did just that. (Pet. at 32a-33a.) As a result, it is unknown whether the jury's verdict in favor of Petitioner on the issue of infringement was based on forward confusion, reverse confusion, or both.

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[4] Forward confusion is the misimpression that the senior user is the source of the junior user's goods, whereas reverse confusion is the misimpression that the junior user is the source of the senior user's goods. *See, e.g., Banff, Ltd. v. Federated Dep't Stores, Inc.*, 841 F.2d 486, 490 (2d Cir. 1988).

Even assuming that the jury's verdict was based solely on reverse confusion, Quick's argument that the application of the *Pebble Beach* factors to the determination of whether an award of profits is appropriate in trademark infringement cases is inappropriate in the context of a reverse confusion case is unavailing. To the contrary, the wisdom of the *Pebble Beach* factors is that they apply quite well to the reverse confusion situation, in that, in the absence of passing off, it should be more difficult for a trademark holder to obtain the windfall remedy of an accounting of profits. *See Champion Spark Plug*, 331 U.S. at 131-32 (affirming, in a case decided under the Trademark Act of 1905 but after the passage of the Lanham Act in 1946, the denial of an accounting of profits where an injunction "satisf[ied] the equities of the case"); *cf. ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 965 (D.C. Cir. 1990) (Thomas, J.) (an award of profits is "proper only in a case involving actions that evince willfulness or bad faith, *such as passing off a product as another seller's product*") (emphasis added).

B. Quick's Deterrence Arguments are Unavailing

With respect to Quick's assertion that the Fifth Circuit's application of the *Pebble Beach* factors to determine whether an award of profits is appropriate in a reverse confusion case "effectively eliminates the ability of smaller companies to protect their trademarks from being raided by larger companies" (Pet. at 20), this case well illustrates the enormous deterrent effect of injunctive relief. In this regard, Respondents spent several years, and millions of dollars in advertising and marketing, developing good will in the mark SAGE, only to find it necessary to

adopt an entirely new mark after the permanent injunctions (Pet. at 67a-72a) were entered.[5]

Quick's argument that "[t]he Fifth Circuit's opinion could be read to hold that damages are never available for reverse confusion because [four of the *Pebble Beach*] factors will never be present and strong evidence of the other two will not support an award of profits" totally misconstrues the decision below. As Quick is well aware, in addition to seeking an accounting of an infringer's profits, a plaintiff in a reverse confusion case can also seek to recover its damages based on actual lost sales, a reasonable royalty for the infringing use, or corrective advertising damages.

In this connection, Quick never sought to establish any actual damages, nor did it seek a reasonable royalty. While Quick did seek to recover corrective advertising damages, the District Court denied recovery under this theory because Quick did not raise it until the eve of trial, and almost five months after the parties had submitted a signed pretrial order. The Fifth Circuit affirmed the District Court's dismissal of the corrective advertising claim (*see* Pet. at 9a-10a), and Quick has not sought this Court's review. (*See* Pet. at i-ii.)

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[5] While the permanent injunctions did not completely preclude Respondents' use of the SAGE mark, Respondents nevertheless decided to undergo a complete name change by selecting an entirely new mark (BEST).

III. THE CIRCUIT SPLIT CITED BY QUICK IS ILLUSORY

Finally, in an attempt to entice this Court into granting a writ on the basis of a purported split among the decisions of several circuit courts, Quick makes two arguments. First, Quick asserts that the decision below is in conflict with the Seventh Circuit's decision in *Roulo v. Russ Berrie & Co.*, 886 F.2d 931 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990), as to the factor-based test to be used to determine whether an award of profits is appropriate. (Pet. at 7.) Second, Quick asserts that there is a split among the various circuit courts as to whether a finding of willfulness is a prerequisite to an award of an infringer's profits under Section 35(a). (Pet. at 23-24.)

As to the purported conflict between the decision below and the Seventh Circuit's decision in *Roulo*, the Seventh Circuit did not, as Quick contends, issue a bright-line rule that "when there is a finding of infringer's profits attributable to infringement, such profits are to be awarded without proof of additional factors such as willfulness." (Pet. at 7.) Rather, the Seventh Circuit held that "*[o]ther than general equitable considerations*, there is no express requirement that the parties be in direct competition or that the infringer willfully infringe the trade dress to justify an award of profits." 886 F.2d at 941 (emphasis added). Thus, *Roulo* stands for the proposition that a finding of direct competition or willful infringement is not required for an accounting of profits, a holding that is *not* in disagreement with the decision below.

With respect to Quick's contention that there is a split among the circuit courts on the issue of whether a finding of willfulness is a prerequisite to an award of an infringer's profits under Section 35(a), while the cited conflict does exist, *the Fifth Circuit resolved the issue in favor of Quick*,

i.e., it "decline[d] to adopt a bright-line rule in which a showing of willful infringement is a prerequisite to an accounting of profits." (Pet. at 15a.) Thus, Quick's position in this lawsuit cannot be advanced by this Court's consideration of the split, and accordingly this is not a proper case in which to address that conflict.

CONCLUSION

For the foregoing reasons, Petitioner's request for a writ should be denied.

Respectfully submitted,

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